

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended.

Unit Name Village of Northport	County LEELANAU	Type VILLAGE	MuniCode 45-3-020
Opinion Date-Use Calendar Aug 5, 2008	Audit Submitted-Use Calendar Aug 21, 2008	Fiscal Year-Use Drop List	2008

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <u>NA</u>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 558,943.00
General Fund Expenditure:	\$ 404,946.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 686,718.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name) Mary	Last Name Krantz	Ten Digit License Number 1101014936		
CPA Street Address 415 Munson Avenue	City Traverse City	State MI	Zip Code 49686	Telephone +1 (231) 946-1722
CPA Firm Name Dennis, Gartland & Niergarth	Unit's Street Address 116 W Nagonaba	City Northport	LU Zip 49670	

Village of Northport

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

February 29, 2008

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Village of Northport
Leelanau County, Michigan

Management's Discussion and Analysis
For the year ended February 29, 2008

The Management's Discussion and Analysis report of the Village of Northport covers the Village's financial performance during the year ended February 29, 2008.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year with all funds experiencing an increase in Fund Balance/Net Assets except the Local Street Fund.

Net assets for the Proprietary Funds were \$7,692,342 at the beginning of the year and \$8,539,318 at the end of the year. This increase was largely due to the capital grants and contributions recorded in the Sewer Fund during the year in the amount of \$763,215.

Capital assets for Governmental Activities decreased from \$515,776 to \$493,323 over the fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities as well as business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities. This is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity, you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on individual funds, not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. Funds are established to account for funding and spending of specific financial resources and to document proper expenditures of these resources.

The activities of the Village are reported as Governmental (General, Major and Local Street and Fireworks), and Proprietary Funds (Water, Sewer and Marina). Governmental funds are presented on the modified accrual basis, which is designed to show short-term financial information. Proprietary funds are presented on the accrual basis, which is designed to show both short-term and long-term financial information.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Recall that the statement of net assets provides the perspective of the Village as a whole. This table provides a summary of the Village's net assets as of February 29, 2008:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2008	2007	2008	2007	2008
Assets						
Current Assets	\$ 71,618	\$ 33,269	\$ 1,343,042	\$ 1,891,719	\$ 1,414,660	\$ 1,924,988
Noncurrent Assets	1,191,457	1,328,946	6,425,808	11,629,814	7,617,265	12,958,760
Total Assets	1,263,075	1,362,215	7,768,850	13,521,533	9,031,925	14,883,748
Current Liabilities	6,512	20,277	76,508	317,129	83,020	337,406
Long-term Liabilities	-	-	-	4,665,086	-	4,665,086
Net Assets						
Invested in capital assets	515,776	493,323	1,937,550	3,093,568	2,453,326	3,586,891
Restricted for:						
Long-term receivables	675,681	835,623	-	-	675,681	835,623
Debt service	-	-	3,938,338	4,351,788	3,938,338	4,351,788
Unrestricted	65,106	12,992	1,816,454	1,093,962	1,881,560	1,106,954
Total Net Assets	\$ 1,256,563	\$ 1,341,938	\$ 7,692,342	\$ 8,539,318	\$ 8,948,905	\$ 9,881,256

The results of this year's operations for the Village as a whole are reported in the statement of activities, see the table below which shows the changes in net assets for fiscal year 2008. Revenue and expense for fiscal year 2007 is also shown for comparative purposes.

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenue						
Program revenue:						
Charges for services	\$ -	\$ -	\$ 590,706	\$ 620,736	\$ 590,706	\$ 620,736
Operating grants and contributions	134,039	124,141	-	-	134,039	124,141
Capital grants and contributions	-	-	5,074,636	763,215	5,074,636	763,215
General revenue:						
Property taxes	347,047	363,062	-	-	347,047	363,062
Investment earnings	17,569	30,486	7,525	103,913	25,094	134,399
Miscellaneous	20,660	27,699	-	-	20,660	27,699
Transfers	(43,000)	(52,000)	43,000	52,000	-	-
Gain (loss) on disposal of assets	(3,077)	621	-	-	(3,077)	621
Total revenue	473,238	494,009	5,715,867	1,539,864	6,189,105	2,033,873
Program Expenses						
General government	183,783	230,942	-	-	183,783	230,942
Community activities	9,984	12,234	-	-	9,984	12,234
Highways and streets	56,474	65,132	-	-	56,474	65,132
Street lighting	10,419	11,601	-	-	10,419	11,601
Parks and recreation	13,020	13,322	-	-	13,020	13,322
Other	15,924	42,818	-	-	15,924	42,818
Depreciation	33,219	32,585	-	-	33,219	32,585
Sewer	-	-	-	88,443	-	88,443
Water	-	-	91,240	98,097	91,240	98,097
Marina	-	-	529,024	506,348	529,024	506,348
Total program expenses	322,823	408,634	620,264	692,888	943,087	1,101,522
Change in Net Assets	\$ 150,415	\$ 85,375	\$ 5,095,603	\$ 846,976	\$ 5,246,018	\$ 932,351

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

During this Fiscal Year we made significant progress on our sewer project. We received the remaining \$155,698 left of the S-2 Grant receivable at the end of the last Fiscal year. We were approved for a \$13,290,000 State Revolving Fund loan; \$5,824,078 of which was disbursed to the Village during the Fiscal Year. The Village is responsible for repaying 80.1% of the amount borrowed. The remaining 19.9% will be repaid by Leelanau Township. As of February 29, 2008, the Village owes \$4,665,086. Assessments were levied and \$440,538 was collected.

Opposition to the sewer project produced lawsuits costing the Village \$149,902.

Street work was minimal as all streets will be redone after the sewer project is completed. Maintenance on Local Streets was higher due to the fact that most were gravel throughout the year.

The Fireworks Fund received \$10,218 in contributions and interest revenue, of which \$8,335 was spent on the fireworks show itself.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village purchased a new loader this year, and capitalized costs for construction of the sewer system as “construction in process” in the sewer fund.

The Village has borrowed \$5,824,078 from the State Revolving Fund at 1.65% interest over twenty years. The Village is responsible for repaying 80.1% of this amount. Assessments have been levied and user fees will also be utilized to pay off the bonds.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Sewer system will be completed and receipt of the remaining \$7,465,922 in SRF project funding from the State of Michigan will continue to produce activity in the Sewer and Street funds over the next year. Assessments were levied and payments will be received over the next twenty years. User fees will also be utilized to pay off the bonds.

CONTACTING THE VILLAGE’S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Villages finances and to demonstrate the Villages accountability for the revenues it receives. If you have any questions concerning this report please contact the Village Clerk, Laura A. Weiss (231) 386-5182 ext.11.

Village of Northport

VILLAGE OFFICIALS

February 29, 2008

Michael F. Rogers, Sr.	President
Merilee Scripps	Treasurer
Laura A. Weiss	Clerk
William J. Brendel	Trustee
Richard Burmeister	Trustee
Frederick H. Thomas	Trustee
Steven Mattson	Trustee
Barb VonVoigtlander	Trustee
Stephen Wetherbee	Trustee



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable President and
Members of the Village Council
Village of Northport
Leelanau County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Village of Northport*** (the "Village") as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Member of



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In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2008, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 24 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

August 5, 2008

Village of Northport
STATEMENT OF NET ASSETS
February 29, 2008

	Primary Government		
	Governmental Activities	Business- Type	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 107,611	\$ 429,973	\$ 537,584
Investments	229,087	874,680	1,103,767
Accounts and advances receivable	4,225	22,930	27,155
Special assessments receivable	-	220,000	220,000
Due from other governmental units	16,846	-	16,846
Internal balances	(334,400)	334,400	-
Prepaid expenditures and deferred charges	<u>9,900</u>	<u>9,736</u>	<u>19,636</u>
Total current assets	33,269	1,891,719	1,924,988
Capital assets, net of accumulated depreciation	493,323	7,758,654	8,251,977
Other assets			
Long-term receivable	835,623	-	835,623
Special assessments receivable	<u>-</u>	<u>3,871,160</u>	<u>3,871,160</u>
Total other assets	<u>835,623</u>	<u>3,871,160</u>	<u>4,706,783</u>
Total assets	<u><u>\$ 1,362,215</u></u>	<u><u>\$ 13,521,533</u></u>	<u><u>\$ 14,883,748</u></u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	\$ 13,548	\$ 293,538	\$ 307,086
Accrued interest	-	21,253	21,253
Accrued liabilities	<u>6,729</u>	<u>2,338</u>	<u>9,067</u>
Total current liabilities	20,277	317,129	337,406
Non-current liabilities			
Long-term liabilities	<u>-</u>	<u>4,665,086</u>	<u>4,665,086</u>
Total liabilities	<u>20,277</u>	<u>4,982,215</u>	<u>5,002,492</u>
NET ASSETS			
Invested in capital assets, net of related debt	493,323	3,093,568	3,586,891
Restricted for long-term receivable	835,623	-	835,623
Restricted for debt service	-	4,351,788	4,351,788
Unrestricted	<u>12,992</u>	<u>1,093,962</u>	<u>1,106,954</u>
Total net assets	<u>1,341,938</u>	<u>8,539,318</u>	<u>9,881,256</u>
Total liabilities and net assets	<u><u>\$ 1,362,215</u></u>	<u><u>\$ 13,521,533</u></u>	<u><u>\$ 14,883,748</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Northport
STATEMENT OF ACTIVITIES
Year Ended February 29, 2008

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contribution	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities							
General government	\$ 230,942	\$ -	\$ 47,038	\$ -	\$ (183,904)	\$ -	\$ (183,904)
Community activities	12,234	-	9,930	-	(2,304)	-	(2,304)
Highways and streets	65,132	-	67,173	-	2,041	-	2,041
Street lighting	11,601	-	-	-	(11,601)	-	(11,601)
Parks and recreation	13,322	-	-	-	(13,322)	-	(13,322)
Depreciation	32,585	-	-	-	(32,585)	-	(32,585)
Other	42,818	-	-	-	(42,818)	-	(42,818)
Total governmental activities	408,634	-	124,141	-	(284,493)	-	(284,493)
Business-type activities							
Water	98,097	64,498	-	-	-	(33,599)	(33,599)
Sewer	88,443	-	-	763,215	-	674,772	674,772
Marina	506,348	556,238	-	-	-	49,890	49,890
Total business-type activities	692,888	620,736	-	763,215	-	691,063	691,063
Total primary government	<u>\$ 1,101,522</u>	<u>\$ 620,736</u>	<u>\$ 124,141</u>	<u>\$ 763,215</u>	<u>(284,493)</u>	<u>691,063</u>	<u>406,570</u>
General purpose revenues							
Property taxes, levied for general purposes					363,062	-	363,062
Investment earnings					30,486	103,913	134,399
Miscellaneous					27,699	-	27,699
Transfers					(52,000)	52,000	-
Total general revenues					369,247	155,913	525,160
Special item - gain on disposal of assets					621	-	621
Change in net assets					85,375	846,976	932,351
Net assets, beginning of year					1,256,563	7,692,342	8,948,905
Net assets, end of year					<u>\$ 1,341,938</u>	<u>\$ 8,539,318</u>	<u>\$ 9,881,256</u>

Village of Northport

GOVERNMENTAL FUNDS - BALANCE SHEET

February 29, 2008

	General Fund	Other Governmental Funds*	Total Governmental Funds
ASSETS			
Cash	\$ 34,390	\$ 73,221	\$ 107,611
Cash invested	147,378	81,709	229,087
Receivables			
Taxes	4,225	-	4,225
Accounts receivable	835,623	-	835,623
Due from other governmental units	8,128	8,718	16,846
Prepaid expenses	9,900	-	9,900
	<u>1,039,644</u>	<u>163,648</u>	<u>1,203,292</u>
Total assets	<u>\$ 1,039,644</u>	<u>\$ 163,648</u>	<u>\$ 1,203,292</u>
LIABILITIES			
Accounts payable	\$ 13,548	\$ -	\$ 13,548
Accrued liabilities	4,978	1,751	6,729
Due to other funds	334,400	-	334,400
	<u>352,926</u>	<u>1,751</u>	<u>354,677</u>
Total liabilities	<u>352,926</u>	<u>1,751</u>	<u>354,677</u>
FUND BALANCES			
Restricted for long-term receivable	835,623	-	835,623
Unreserved	(148,905)	161,897	12,992
	<u>1,039,644</u>	<u>163,648</u>	
Total liabilities and fund balances	<u>\$ 1,039,644</u>	<u>\$ 163,648</u>	

Reconciliation of Governmental Fund Balances to District-Wide Governmental Activities Net Assets

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,180,975 and the accumulated depreciation is \$687,652.

493,323

Total net assets - governmental activities

\$ 1,341,938

* Fireworks, Major and Local Street Funds

Village of Northport

GOVERNMENTAL FUNDS - STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	General Fund	Other Governmental Funds*	Total Governmental Funds
REVENUES			
Property taxes	\$ 363,062	\$ -	\$ 363,062
Intergovernmental revenues	47,038	67,173	114,211
Contributions	-	9,930	9,930
Equipment rental	18,950	-	18,950
Interest income	26,544	3,942	30,486
Other	<u>103,349</u>	<u>15,413</u>	<u>118,762</u>
Total revenues	<u>558,943</u>	<u>96,458</u>	<u>655,401</u>
EXPENDITURES			
General government			
Council	5,447	-	5,447
President	1,292	-	1,292
Administrative coordinator	7,873	-	7,873
Accounting fees	2,025	-	2,025
Attorney fees	61,478	-	61,478
Clerk	37,931	-	37,931
Treasurer	6,978	-	6,978
Office	20,898	-	20,898
Village property	80,551	-	80,551
Zoning administration	2,758	-	2,758
Fringe benefits	3,711	-	3,711
Community activities	3,899	8,335	12,234
Highways and streets	2,000	82,292	84,292
Street lighting	11,601	-	11,601
Parks and recreation	13,322	-	13,322
Other	38,858	-	38,858
Capital outlay	<u>104,324</u>	<u>-</u>	<u>104,324</u>
Total expenditures	<u>404,946</u>	<u>90,627</u>	<u>495,573</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>153,997</u>	<u>5,831</u>	<u>159,828</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	30,000	-	30,000
Operating transfers out	<u>(82,000)</u>	<u>-</u>	<u>(82,000)</u>
Total other financing sources (uses)	<u>(52,000)</u>	<u>-</u>	<u>(52,000)</u>
NET CHANGE IN FUND BALANCES	101,997	5,831	107,828
Fund balance, beginning of year	<u>584,721</u>	<u>156,066</u>	<u>740,787</u>
Fund balance, end of year	<u><u>\$ 686,718</u></u>	<u><u>\$ 161,897</u></u>	<u><u>\$ 848,615</u></u>

* Fireworks, Major and Local Street Funds

Village of Northport

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Total net change in fund balances - governmental funds \$ 107,828

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Capital outlays	\$ 104,324	
Depreciation expense	<u>(32,585)</u>	71,739

Proceeds from the sale of assets are revenues in the governmental funds, but it reduces capital assets, net of accumulated depreciation in the statement of net assets and does not affect the statement of activities. (94,813)

Gain on sale of assets	<u>621</u>
------------------------	------------

Change in net assets of governmental activities \$ 85,375

Village of Northport

PROPRIETARY FUNDS - COMBINING STATEMENT OF NET ASSETS

February 29, 2008

	Business-Type Activities - Enterprise Funds			
	Water Fund*	Marina Fund*	Sewer Fund*	Totals
ASSETS				
CURRENT ASSETS				
Cash	\$ 45,928	\$ 119,195	\$ 264,850	\$ 429,973
Cash invested	144,507	133,580	596,593	874,680
Accounts receivable	17,548	5,382	-	22,930
Special assessments receivable	-	-	220,000	220,000
Due from other funds	-	334,400	-	334,400
Prepaid expenses	2,600	7,136	-	9,736
Total current assets	210,583	599,693	1,081,443	1,891,719
PROPERTY, PLANT AND EQUIPMENT				
Land	-	220,991	-	220,991
Construction in process	-	-	5,875,469	5,875,469
Buildings	-	89,275	-	89,275
Other improvements	1,044,534	2,295,494	-	3,340,028
Mains, equipment and fixtures	20,388	43,330	-	63,718
Total property, plant and equipment	1,064,922	2,649,090	5,875,469	9,589,481
Less accumulated depreciation	(329,942)	(1,500,885)	-	(1,830,827)
Net property, plant and equipment	734,980	1,148,205	5,875,469	7,758,654
OTHER ASSETS				
Special assessments receivable	-	-	3,871,160	3,871,160
	<u>\$ 945,563</u>	<u>\$ 1,747,898</u>	<u>\$ 10,828,072</u>	<u>\$ 13,521,533</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 995	\$ 875	\$ 291,668	\$ 293,538
Accrued wages and related liabilities	891	1,447	-	2,338
Accrued interest payable	-	-	21,253	21,253
Total current liabilities	1,886	2,322	312,921	317,129
LONG-TERM LIABILITIES, net of current maturities				
	-	-	4,665,086	4,665,086
Total liabilities	1,886	2,322	4,978,007	4,982,215
NET ASSETS				
Invested in capital assets, net of related debt	734,980	1,148,205	1,210,383	3,093,568
Restricted for debt service	-	-	4,351,788	4,351,788
Unrestricted	208,697	597,371	287,894	1,093,962
Total net assets	943,677	1,745,576	5,850,065	8,539,318
	<u>\$ 945,563</u>	<u>\$ 1,747,898</u>	<u>\$ 10,828,072</u>	<u>\$ 13,521,533</u>

* Major Funds

The accompanying notes are an integral part of these financial statements.

Village of Northport

PROPRIETARY FUNDS - COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended February 29, 2008

	Business-Type Activities - Enterprise Funds			
	Water Fund	Marina Fund	Sewer Fund	Total
Operating revenue				
Charges for services	\$ 64,498	\$ 287,424	\$ -	\$ 351,922
Gas and oil sales	-	260,466	-	260,466
Other	-	8,348	-	8,348
Total operating revenues	<u>64,498</u>	<u>556,238</u>	<u>-</u>	<u>620,736</u>
Operating expenses				
Payroll and related benefits	32,994	111,058	53,655	197,707
Supplies	16,151	14,791	263	31,205
Contractual services	6,845	33,051	-	39,896
Utilities	6,729	15,619	-	22,348
Repairs and maintenance	7,869	9,713	-	17,582
Equipment rental	500	2,500	750	3,750
Gas and oil purchases	-	227,823	-	227,823
Insurance	3,788	8,514	1,000	13,302
Depreciation	22,370	63,175	-	85,545
Miscellaneous	851	20,104	9,288	30,243
Total operating expenses	<u>98,097</u>	<u>506,348</u>	<u>64,956</u>	<u>669,401</u>
Operating income (loss)	(33,599)	49,890	(64,956)	(48,665)
Nonoperating revenues (expenses)				
Interest income	443	6,745	96,725	103,913
Interest expense	-	-	(23,487)	(23,487)
Total nonoperating revenues (expenses)	<u>443</u>	<u>6,745</u>	<u>73,238</u>	<u>80,426</u>
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	(33,156)	56,635	8,282	31,761
Capital contributions	-	-	763,215	763,215
Transfers from (to) other funds	<u>82,000</u>	<u>(30,000)</u>	<u>-</u>	<u>52,000</u>
CHANGE IN NET ASSETS	48,844	26,635	771,497	846,976
Net assets, beginning of year	<u>894,833</u>	<u>1,718,941</u>	<u>5,078,568</u>	<u>7,692,342</u>
Net assets, end of year	<u>\$ 943,677</u>	<u>\$ 1,745,576</u>	<u>\$ 5,850,065</u>	<u>\$ 8,539,318</u>

The accompanying notes are an integral part of these financial statements.

Village of Northport

PROPRIETARY FUNDS - COMBINING STATEMENT OF CASH FLOWS

Year Ended February 29, 2008

	Business-Type Activities - Enterprise Funds			
	Water Fund	Marina Fund	Sewer Fund	Totals
Operating activities				
Operating income (loss)	\$ (33,599)	\$ 49,890	\$ (64,956)	\$ (48,665)
Adjustments to reconcile operating income (loss) to cash (used) provided by operating activities				
Depreciation	22,370	63,175	-	85,545
Increase in accounts receivable	(3,275)	-	-	(3,275)
Decrease in prepaid expenses	1,000	129	-	1,129
(Decrease) increase in accounts payable	(26)	(85)	218,920	218,809
Increase in accrued liabilities	<u>212</u>	<u>347</u>	<u>21,253</u>	<u>21,812</u>
Net cash (used) provided by operating activities	<u>(13,318)</u>	<u>113,456</u>	<u>175,217</u>	<u>275,355</u>
Investing activities				
Increase in cash invested	(130,080)	(5,283)	(284,593)	(419,956)
Interest received on investments	443	6,745	96,725	103,913
Purchase of fixed assets	<u>(21,080)</u>	<u>(10,100)</u>	<u>(5,000,628)</u>	<u>(5,031,808)</u>
Net cash used by investing activities	<u>(150,717)</u>	<u>(8,638)</u>	<u>(5,188,496)</u>	<u>(5,347,851)</u>
Capital financing activities				
Proceeds from long-term debt	-	-	4,665,086	4,665,086
Capital contributions	-	-	505,472	505,472
Interest expense	<u>-</u>	<u>-</u>	<u>(23,487)</u>	<u>(23,487)</u>
Net cash provided by capital financing activities	<u>-</u>	<u>-</u>	<u>5,147,071</u>	<u>5,147,071</u>
Non-capital financing activities				
Transfers from (to) other funds	<u>82,000</u>	<u>(30,000)</u>	<u>-</u>	<u>52,000</u>
NET (DECREASE) INCREASE IN CASH	<u>(82,035)</u>	<u>74,818</u>	<u>133,792</u>	<u>126,575</u>
Cash, beginning of year	<u>127,963</u>	<u>44,377</u>	<u>131,058</u>	<u>303,398</u>
Cash, end of year	<u><u>\$ 45,928</u></u>	<u><u>\$ 119,195</u></u>	<u><u>\$ 264,850</u></u>	<u><u>\$ 429,973</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Northport

STATEMENT OF FIDUCIARY NET ASSETS

February 29, 2008

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 2,835</u>
LIABILITIES	
Accrued liabilities	<u>\$ 2,835</u>

Village of Northport

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the significant accounting principles and practices of the Village of Northport (the "Village") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Village's financial activities for the year ended February 29, 2008.

The Financial Reporting Entity

The Village's financial statements include the accounts of all Village operations. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Village is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Village. Additionally, the Village is required to consider other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the Village's financial statements to be misleading or incomplete. The Village has not identified any blended or discretely presented component units requiring inclusion in the Village's financial statements.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Village as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and marina functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities reports the expenses of a given fund offset by program revenues directly connected with that fund. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Village's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure in the Water Fund and Sewer Fund is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Fund Financial Statements

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Village's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The fund financial statements of the Village are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Village applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

NOTES TO FINANCIAL STATEMENTS - Continued

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

The fiduciary funds are generally maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

Fund Types and Major Funds

Activities in Major Funds

GOVERNMENTAL FUNDS

General Fund - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Village.

PROPRIETARY FUNDS

Marina Fund - This fund is used to account for operations of the marina. Financing is provided by user charges.

Water Fund - This fund is used to account for operations of the water system. Financing is provided by user charges.

Sewer Fund - This fund is used to account for the construction and operation of the sewer system. Financing is provided by grants, special assessments and user charges.

Activities in Non-Major Funds

GOVERNMENTAL FUNDS

Special Revenue Funds - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

FIDUCIARY FUNDS

Trust and Agency Funds - These funds account for assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These funds are Agency Funds.

NOTES TO FINANCIAL STATEMENTS - Continued

Budgets and Budgetary Accounting

Budgets are adopted by Village officials for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the functional level.

Cash and Investments

The Village considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Village generally capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	20 years
Buildings and improvements	20 - 50 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of proprietary funds represent the net assets that have not been legally identified for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 also provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended February 29, 2008, the Village incurred certain expenditures which were in excess of the amounts appropriated as reflected in the budgetary comparison schedule as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Capital outlay	\$ 100,325	\$ 104,324	\$ (3,999)

NOTE C - CASH AND INVESTMENTS

At February 29, 2008, the Village's cash and investments included the following:

	<u>Balance Sheet Classification</u>		
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Total</u>
Bank deposits and cash on hand	\$ 540,419	\$ -	\$ 540,419
CD and money market investments	<u>-</u>	<u>1,103,767</u>	<u>1,103,767</u>
Total	<u>\$ 540,419</u>	<u>\$ 1,103,767</u>	<u>\$ 1,644,186</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the Village's deposits may not be returned to it. As of February 29, 2008, \$303,214 of the Village's cash and investments was insured. The remaining bank balance of \$1,351,598 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of Deposit	\$ 1,103,767	\$ 1,103,767	\$ -	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS - Continued

Interest Rate Risk

In accordance with the Village's investment policy, the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds or similar investment pools, and limiting the average maturity in accordance with the Village's cash requirements.

NOTE D - PROPERTY TAXES

The Village collects real property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The county pays the Village for uncollected taxes as of September 15 out of proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. The total levy is 8.5 mills for real and personal property. The Village levied a total real and personal property tax of \$363,062.

NOTE E - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended February 29, 2008:

Governmental Activities - General Fixed Assets

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and land improvements	\$ 425,216	\$ -	\$ -	\$ 425,216
Building and improvements	498,304	-	-	498,304
Equipment and furniture	65,760	6,824	(6,623)	65,961
Vehicles	<u>195,794</u>	<u>97,500</u>	<u>(101,800)</u>	<u>191,494</u>
 Total depreciable assets	 1,185,074	 104,324	 (108,423)	 1,180,975
 Less accumulated depreciation	 <u>(669,298)</u>	 <u>(32,585)</u>	 <u>14,231</u>	 <u>(687,652)</u>
 Total capital assets, net	 <u><u>\$ 515,776</u></u>	 <u><u>\$ 71,739</u></u>	 <u><u>\$ (94,192)</u></u>	 <u><u>\$ 493,323</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Business-Type Activities - Enterprise Funds

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Other Dispositions</u>	<u>Ending</u>
Land and improvements	\$ 220,991	\$ -	\$ -	\$ 220,991
Construction in process	-	5,875,469	-	5,875,469
Buildings	89,275	-	-	89,275
Other improvements	3,308,848	31,180	-	3,340,028
Mains, equipment and fixtures	<u>63,718</u>	<u>-</u>	<u>-</u>	<u>63,718</u>
Total depreciable assets	3,682,832	5,906,649	-	9,589,481
Less accumulated depreciation	<u>(1,745,282)</u>	<u>(85,545)</u>	<u>-</u>	<u>(1,830,827)</u>
Total capital assets, net	<u>\$ 1,937,550</u>	<u>\$ 5,821,104</u>	<u>\$ -</u>	<u>\$ 7,758,654</u>

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following:

2008 General Obligation Limited Tax Bonds are recorded in the Sewer Fund. The debt will be repaid from special assessments recorded in the Sewer Enterprise Fund. Up to \$13,290,000 can be borrowed to fund the sewer project. Required principal payments begin in April, 2009. Interest is payable at 1.625% annually. The Village is responsible for repayment of 80.1% of the amount borrowed and Leelanau Township is responsible for the repayment of the remaining 19.9%. If the full amount is borrowed the amortization of the loan will change and it will be paid in full in April, 2028.

\$ 4,665,086

The following is a summary of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Enterprise Funds				
Sewer Fund	\$ -	\$ 4,665,086	\$ -	\$ 4,665,086

NOTES TO FINANCIAL STATEMENTS - Continued

Annual Requirements to Amortize Long-Term Debt

Annual requirements to amortize long-term debt outstanding as of February 29, 2008 are as follows:

<u>Year Ending February 28,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 66,078
2010	452,565	72,131
2011	460,575	64,711
2012	468,585	57,162
2013	476,595	49,486
2014-2018	2,503,125	125,195
2019	<u>303,641</u>	<u>4,934</u>
Total	<u>\$ 4,665,086</u>	<u>\$ 439,697</u>

Interest expense for the year ended February 29, 2008 was \$23,487.

NOTE G - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Operating Transfers

A summary of operating transfers in and out of individual funds follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 30,000	\$ 82,000
Water Fund	82,000	-
Marina Fund	<u>-</u>	<u>30,000</u>
Total	<u>\$ 112,000</u>	<u>\$ 112,000</u>

Receivables and Payables

Interfund receivables and payables as reported in the governmental fund financial statements at February 29, 2008 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 334,400
Marina Fund	<u>334,400</u>	<u>-</u>
Total	<u>\$ 334,400</u>	<u>\$ 334,400</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - PENSION PLAN

The Village participates in a defined contribution (money purchase) pension plan. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the year ended February 29, 2008 was \$189,082; total payroll for the year ended February 29, 2008 was \$267,087. Employer contributions are based upon a percentage of annual payroll. Employees make additional contributions of 4% of gross wages. Employees are vested 100% immediately in employee contributions and are vested as follows in employer contributions:

<u>Years of Service</u>	<u>Vested</u>
0 - 2	0 %
3	20 %
4	40 %
5	60 %
6	80 %
7	100 %

The Village fully funded its required contribution for the year ended February 29, 2008. Employer contributions for the years ended February 29, 2008, 2007 and 2006 amounted to \$11,345, \$10,423 and \$9,570, or 6%, of covered payroll. There were employee contributions of \$7,564 during the year.

None of the plan's assets are invested in the Village securities or those of related parties. There are no loans from the plan to the Village.

NOTE I - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Village carries worker's compensation insurance with the Michigan Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - LONG-TERM RECEIVABLES

The long-term receivable is the result of the Village incurring costs associated with the development of the local sewer system. The Village will be reimbursed when funding of the sewer project becomes available through the issuance of bonds. As of February 29, 2008, the balance of the long-term receivable was \$835,623.

NOTE K - SPECIAL ASSESSMENTS RECEIVABLE

The special assessments receivable are the result of sewer assessments levied on all Village residents. The Village estimates that the annual installments will be approximately \$220,000 and will be collected through 2025. However, this amount may change because residents of the Village can choose to pay their assessment in full at any time. If the residents choose to pay annually, they will be charged interest at the annual rate of 2.625%. As of February 29, 2008, the balance of the special assessments receivable was \$4,091,160.

NOTE L - COMMITMENTS AND CONTINGENCIES

The Village and a surrounding township are in the process of establishing a sewer authority to construct and operate a sewer system for the area. The Village's estimated cost of the project is \$9,276,000. The project will be paid with the proceeds from a State Revolving Fund loan. The loan will be repaid by special assessments billed to the benefiting property owners. The Village is responsible for the repayment of 80.1% of the loan and the remaining 19.9% will be repaid by Leelanau Township.

NOTE M - SUBSEQUENT EVENT

In June 2008 the Village settled a lawsuit with seven residents involving easements for the new sewer system. The Village settled with the residents for \$273,000. Funds from the sewer assessments fund will be used to pay the settlement.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Northport

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended February 29, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Property taxes	\$ 362,500	\$ 362,500	\$ 363,062	\$ -	\$ 562
Intergovernmental revenues	46,000	46,000	47,038	-	1,038
Equipment rental	25,000	25,000	18,950	-	(6,050)
Interest income	8,000	8,000	26,544	-	18,544
Other	94,680	94,680	103,349	-	8,669
Total revenues	<u>536,180</u>	<u>536,180</u>	<u>558,943</u>	<u>-</u>	<u>22,763</u>
EXPENDITURES					
General government	248,063	281,977	230,942	(33,914)	51,035
Community activities	4,000	4,000	3,899	-	101
Highways and streets	2,200	2,200	2,000	-	200
Street lighting	12,000	13,000	11,601	(1,000)	1,399
Parks and recreation	23,820	17,312	13,322	6,508	3,990
Other	84,422	72,822	38,858	11,600	33,964
Capital outlay	108,500	100,325	104,324	8,175	(3,999)
Total expenditures	<u>483,005</u>	<u>491,636</u>	<u>404,946</u>	<u>(8,631)</u>	<u>86,690</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>53,175</u>	<u>44,544</u>	<u>153,997</u>	<u>(8,631)</u>	<u>109,453</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	30,000	30,000	30,000	-	-
Operating transfers out	<u>(122,000)</u>	<u>(92,544)</u>	<u>(82,000)</u>	<u>29,456</u>	<u>10,544</u>
Total other financing sources (uses)	<u>(92,000)</u>	<u>(62,544)</u>	<u>(52,000)</u>	<u>29,456</u>	<u>10,544</u>
NET CHANGE IN FUND BALANCE	<u>(38,825)</u>	<u>(18,000)</u>	<u>101,997</u>	<u>20,825</u>	<u>119,997</u>
Fund balance, beginning of year	<u>584,721</u>	<u>584,721</u>	<u>584,721</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 545,896</u></u>	<u><u>\$ 566,721</u></u>	<u><u>\$ 686,718</u></u>	<u><u>\$ 20,825</u></u>	<u><u>\$ 119,997</u></u>

COMBINING FINANCIAL STATEMENTS

Village of Northport

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEETS

February 29, 2008

	Special Revenue Funds			Total Other Non-Major Funds
	Major Street Fund	Local Street Fund	Fireworks Fund	
ASSETS				
Cash	\$ 56,442	\$ 13,565	\$ 3,214	\$ 73,221
Cash invested	45,590	26,748	9,371	81,709
Due from other governmental units	<u>5,923</u>	<u>2,795</u>	<u>-</u>	<u>8,718</u>
Total assets	<u>\$ 107,955</u>	<u>\$ 43,108</u>	<u>\$ 12,585</u>	<u>\$ 163,648</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued wages	\$ 1,051	\$ 700	\$ -	\$ 1,751
FUND BALANCES				
Unreserved	<u>106,904</u>	<u>42,408</u>	<u>12,585</u>	<u>161,897</u>
Total liabilities and fund balances	<u>\$ 107,955</u>	<u>\$ 43,108</u>	<u>\$ 12,585</u>	<u>\$ 163,648</u>

Village of Northport

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended February 29, 2008

	Special Revenue Funds			Total Other Non-Major Funds
	Major Street Fund	Local Street Fund	Fireworks Fund	
REVENUES				
Intergovernmental revenues	\$ 46,955	\$ 20,218	\$ -	\$ 67,173
Contributions	-	-	9,930	9,930
Interest income	2,344	1,310	288	3,942
Other	<u>15,413</u>	<u>-</u>	<u>-</u>	<u>15,413</u>
Total revenues	<u>64,712</u>	<u>21,528</u>	<u>10,218</u>	<u>96,458</u>
EXPENDITURES				
Community activities	-	-	8,335	8,335
Highways and streets	<u>44,261</u>	<u>38,031</u>	<u>-</u>	<u>82,292</u>
Total expenditures	<u>44,261</u>	<u>38,031</u>	<u>8,335</u>	<u>90,627</u>
REVENUES OVER (UNDER) EXPENDITURES	20,451	(16,503)	1,883	5,831
Fund balance, beginning of year	<u>86,453</u>	<u>58,911</u>	<u>10,702</u>	<u>156,066</u>
Fund balance, end of year	<u>\$ 106,904</u>	<u>\$ 42,408</u>	<u>\$ 12,585</u>	<u>\$ 161,897</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable President and
Members of the Village Council
Village of Northport
Leelanau County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the ***Village of Northport*** (the "Village") as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the Village's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Village has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Village has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Village has committed the resources necessary to meet its internal reporting needs. In this regard, the Village is not unlike many other local governments of its size and nature. The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Duties

Management is responsible for establishing and maintaining effective internal controls. Accounting responsibilities must be segregated so employees who have access to assets do not also have the authority to authorize and approve transactions or to perform account reconciliations. Given the small size of the Village's management staff, we understand the costs to properly segregate all duties may outweigh the benefits. However, during the audit, it was noted the same person who prepares and makes cash deposits also prepares and reviews the bank reconciliation and has the ability to post entries to the general ledger. Separating these functions would help to assure all of the money sent to the Village is correctly deposited into its bank accounts. It was also noted that once checks are signed, they are returned to the preparer for mailing. One of the signers of the checks should mail them to prevent the possibility of the payee on the signed checks being altered before mailing.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

The Village's management's response to the findings identified in our audit are described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Village Council and others within the organization and is not intended to be and should not be used by anyone other than those specified parties.

Dennis, Gartland & Niergarth

August 5, 2008



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AUDIT-RELATED COMMUNICATIONS

To the Honorable President and
Members of the Village Council
Village of Northport

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Northport (the "Village") for the year ended February 29, 2008, and have issued our report thereon dated August 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated December 11, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Please refer to the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* contained in the financial statements for further discussion of internal control and significant deficiencies in internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

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Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated December 11, 2007.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, none of the estimates contained in the financial statements are considered to be particularly sensitive.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. However, none of the disclosures contained in the financial statements are considered to be particularly sensitive.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed and management approved, several adjustments that we considered to be significant to the financial statements. They included adjustments to property and equipment, depreciation, accounts receivable, special assessments receivable, payables, accruals and various expense accounts.

No Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

No Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management of Village of Northport and is not intended to be and should not be used by anyone other than these specified parties.

Dennis, Gartland & Niergarth

August 5, 2008